washingtonpost.com

Senate Approves Pension Overhaul

Measure Seeks Better Company Funding, Stronger Insuring Agency

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Friday, August 4, 2006; A04

The Senate last night overwhelmingly approved the most significant changes to the private pension system since Congress created comprehensive rules covering employee retirement plans three decades ago.

The bill, which goes to President Bush for his signature, is intended to bolster the system for more than 44 million workers and retirees who receive traditional pensions that provide defined benefits. It would require employers that operate such plans to fund them more completely and would put on sturdier financial footing the federal insurance agency that gives Americans some protection if their pension plans collapse.

The legislation, which passed the Senate 93 to 5, also could accelerate the trend in which companies have been switching to newer retirement systems that blend a traditional pension with savings arrangements such as 401(k) plans. Virginia's and Maryland's senators voted for the bill.

Other aspects of the bill would offer special help to parts of the airline industry. Taken together, these and other provisions in the bill's nearly 1,000 pages represent the first substantial pension changes in a dozen years -- and the largest step the government has taken to protect retirement benefits since 1974, when Congress established such rules.

Sen. Barbara A. Mikulski (D-Md.) said the measure will "protect workers from losing their pensions, protect taxpayers from having to pick up the tab if companies dump their plans" and "ensure that the rules of government don't unintentionally jeopardize jobs and pensions."

Majority Leader Bill Frist (R-Tenn.) said, "We have protected the interests of retirees by strengthening pensions' funding rules and making permanent the retirement security provisions from the 2001 tax bill."

The Senate vote came less than a week after the measure cleared the House on a bipartisan 279 to 131 vote. The White House has indicated that Bush supports the bill.

The legislation is a response to trends in which many employers have been weakened by a changing economy and a flat stock market, prompting them to pare retirement benefits -- or to pay less money into traditional pension plans.

Specifically, the legislation would compel companies to, over seven years, increase the payments they make into their pension plans to cover 100 percent of their liabilities, instead of the current 90 percent. The Labor Department has reported that companies have underfunded pensions by more than $450 billion.

The change would mean that about 30,000 companies would need to devote more money to their retirement systems. The bill also seeks to strengthen the Pension Benefit Guaranty Corp., the federal insurance that covers partial benefits for retirees whose pensions fail. The agency has said it has a $22.8 billion deficit this year, because of companies, including airlines, that have left their pension obligations to the government.

Critics, including some Democrats, have said the extra money the measure would require companies to spend would further erode an already fragile system, leading more employers to drop traditional pensions and forcing workers to rely more on savings and 401(k) arrangements that some finance experts predict will leave more Americans poor in old age.

The bill would give legal protections to companies that move into so-called hybrid retirement systems that combine pensions with savings plans. Under the legislation, employers that switch to such systems would be protected -- in the future but not retroactively -- from age-discrimination lawsuits alleging that such a switch is especially harmful to older workers, who do not have enough years for their savings to accumulate.

In another contentious aspect, the legislation would ease conflict-of-interest rules by giving financial firms that manage private retirement accounts some ability -- but not complete freedom -- to give people advice about their investments.

In the hours before the vote, last-minute negotiations centered on the help the legislation would give to airlines in financial trouble. The bill passed by the House would give airlines that have frozen their pension plans -- namely Delta and Northwest -- 17 years to fund their plans fully. Other airlines with traditional pension systems, American and Continental, would get 10 years.

Staff writer Charles Babington contributed to this report.